BUSINESS RATES SYSTEM DESIGN GROUP

Local Authority Away-Day – 17th August 2016

Local Authority representatives serving on the Business Rates System Design Working Group took the opportunity to separately meet on the 17 August in order to consider their work so far and to determine what common agreement had been reached on what changes they wanted to the re-designed system.

Some of the issues that we identify and propose solution to relate to current problems with the scheme rather and need to be addressed with immediate effect rather than waiting for the 2020 system reset. In particular, the performance of the valuation office, the adverse impact of appeals that performance causes and the need to set a truly fiscally neutral multiplier at an authority-by-authority level both need to be resolved for 2017/18.

The following paper sets out those areas where agreement was able to be reached and outlines the changes they would wish to be pursued by DCLG.

Key Asks Summarised:

Valuation Office Agency Performance

a) That the performance (and funding) of the Valuation Office are sufficiently monitored to ensure the accuracy of revaluations and processing of appeals are improved, whilst greater and more detailed statistical analysis needs to be provided;
b) Consideration to re-localise the Valuation Office work – bearing in mind the difficulties of maintaining national parity over valuation assumptions etc. if a single national multiplier is to be retained;

Recalibrating the National Multiplier

c) That the national multiplier is set at a sufficient level to ensure the ultimate effect of appeals found to be as a result of errors on the original list are able to be funded within net fiscal neutrality – any if it proves insufficient, Central Government funds the consequent losses to local government;
d) That clear evidence and data is provided to local authorities in order for them to validate the required quantum built into the multiplier to fund the cost of these appeals;
e) That should the multiplier be found to have been set too low, DCLG / HM Treasury indemnify local government for any such revenue losses;
f) That the value of such appeals is defined as any appeal back-dated to the starting date of the List;
g) That final adjustment is made within 2018/19 to reflect changes to the Valuation List between draft and final versions;

Recompensing Individual Local Authorities for Appeals Experience

h) That distribution of funding to compensate for back-dated appeals (errors on the original List) is distributed according to actual losses incurred rather than being distributed on a national average basis (being top-sliced from the additional appeals-adjustment element of the national multiplier);

Timing Differences Between The Collection Fund & General Fund

i) Timing differences between the revenue impact of Safety Net / Levy payments are brought into line with the operation and impact of the Collection Fund Adjustment Account;

System Resets

j) Partial resets should apply at every reset albeit over time the cumulative effect of partial resets would achieve the same as a full reset;
k) Some form of damping arrangements would be needed following each partial reset to ensure no local authority faced catastrophic short term changes in funding without having the time to adapt accordingly – damping would need to be tapered so that long term change was eventually reflected;

Frequency of System Resets and Valuations

l) Revaluation periods are maintained at the previous rate of a maximum of every five years;
m) System resets are matched to the same maximum five year period as recommended for revaluations;
n) The dates of both the revaluations and system resets are harmonised;

Safety Net Arrangements

o) The percentage level at which the Safety Net protection becomes applicable should be set to match the cash value it originally protected as a proportion of Start-Up Funding Assessment to remove the gradual erosion that has taken place as Baseline has increased in relative value as a share of overall SFA;

The Central List

p) The Central List should be minimised to broadly the assets it currently contains with clearly defined principles and not expanded;
q) Clear evidence as to the purpose its yield is used to fund should be presented annually as part of the Settlement;

Reliefs and Discounts

r) Reliefs and Discounts so far as is possible should be made the discretion of the local area rather than set nationally;
s) Arrangements should be put in place to ensure in two-tier areas the decisions of one tier should not adversely impact on the finances of the other – both should have their own ability to flex discounts and reliefs;

Gearing

t) Consideration should be given as to how the gearing effect impacts on an areas ability to grow their NNDR yield;
u) Consideration of top-slicing the national quantum or using the Central List should be given to providing some enhancement of growth in those areas with low gearing;

The group gave some consideration to the possibility of rewarding local authorities for above average valuation growth whilst continuing to offer the same level of protection to authorities seeing their business rate yield fall. However at this stage they have yet to formulate a proposal and mechanism that would achieve this and address the risk of the national Rateable Value going down. This issue will need to be considered further and brought back to a later meeting of the Systems Design Working Group.

Each of the above Key Asks are discussed in more detail in the following sections:

VALUATION OFFICE AGENCY PERFORMANCE

1. Whilst each local authority has a reasonable amount of information with regard to its own Rating List and the number of appeals lodged (both resolved and still outstanding) they are less well served with national data and especially information relating to their specific closest neighbours.

2. Information made available about an authority's appeals against its own List are made available by the Valuation Office Agency (VOA) via the BATRANS web portal. However, that data fails to identify those appeals lodged with the Valuation Tribunal from those still pending consideration by the VOA. Similarly, no indication is made of the rateable value in dispute, rather the whole existing rateable value is simply provided.

3. Assessing the performance of the VOA at an overall national level is made more difficult by the relative lack of detailed statistics made available. We do however have some "*experimental*" statistics[1] on which we are able to draw some conclusions as to performance.

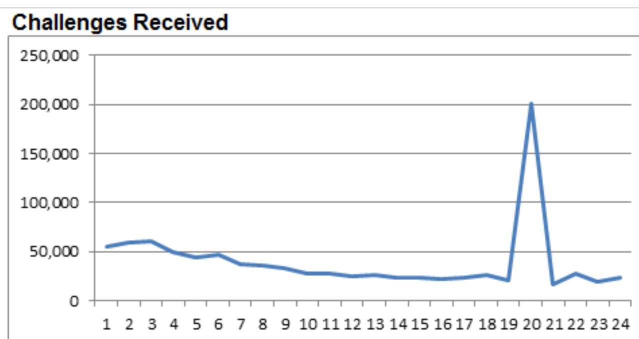
4. The latest statistical release (June 2016) shows just under one million appeals being lodged across England of which around 30% remain unresolved – of those resolved, 29% have resulted in a change to the previous valuation (37% for the 2005 List).

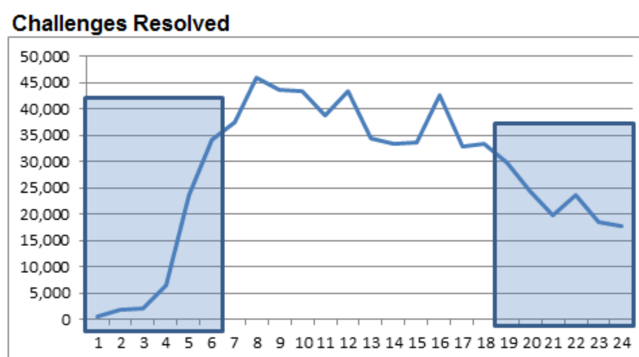
5. Whilst supporting data has not been made publically available for the June 2016 release, it has been made available for the previous quarter, and from which some further, high level, analysis can be performed. As can be seen from the table and charts below, the number of challenges resolved was significantly below average in the first six quarters of the new List and has again declined in the last six quarters to March 2016. We suspect this reflects the VOA working on clearing the backlog of 2005 List appeals in the first instance and committing resources to preparing for the Revaluation in the latter case.

   Table 1 / Chart 1

[1] https://www.gov.uk/government/statistics/non-domestic-rating-challenges-and-changes-england-and-wales-june-2016-experimental

Quarter	Received	Resolved	Outstanding	%age O/S
2010-11 Q1	54,510	510	54,000	99%
2010-11 Q2	58,850	1,750	111,100	98%
2010-11 Q3	60,560	2,090	169,570	97%
2010-11 Q4	48,960	6,370	212,160	95%
2011-12 Q1	43,840	23,600	232,400	87%
2011-12 Q2	47,240	34,260	245,380	78%
2011-12 Q3	37,380	37,410	245,350	70%
2011-12 Q4	35,930	45,880	235,400	61%
2012-13 Q1	32,570	43,540	224,430	53%
2012-13 Q2	27,900	43,450	208,880	47%
2012-13 Q3	27,320	38,750	197,450	42%
2012-13 Q4	24,690	43,420	178,720	36%
2013-14 Q1	26,150	34,340	170,530	32%
2013-14 Q2	23,630	33,480	160,680	29%
2013-14 Q3	23,520	33,740	150,460	26%
2013-14 Q4	22,390	42,760	130,090	22%
2014-15 Q1	23,370	32,970	120,490	19%
2014-15 Q2	25,920	33,440	112,970	18%
2014-15 Q3	21,100	29,780	104,290	16%
2014-15 Q4	201,360	24,390	281,260	32%
2015-16 Q1	17,000	19,820	278,440	31%
2015-16 Q2	28,120	23,750	282,810	31%
2015-16 Q3	19,160	18,580	283,390	30%
2015-16 Q4	23,840	17,850	289,380	30%
Total	**955,310**	**665,930**	**289,380**	**30%**





Source: https://www.gov.uk/government/statistics/non-domestic-rating-challenges-and-changes-england-and-wales-march-2016-experimental

6. Analysed by English regions, the only particular outlier from national averages appears to be the number of appeals lodged as a proportion to total number of heraditaments for the London area (and especially the case for Inner London). On average, 15% of all heraditaments have so far seen a successful appeal – the higher than average number of appeals in London again making it a net outlier at 21%

Table 2

	Heraditaments No.	Challenges No.	Challenge %age	Resolved No.	Resolved %age	Success No.	Success %age	Challenge x Success %
North East	81,000	42,150	52%	27,720	66%	8,110	29%	15%
North West	259,000	140,970	54%	100,220	71%	30,530	30%	17%
Yorkshire & Humber	188,000	90,390	48%	63,850	71%	18,140	28%	14%
East Midlands	145,000	63,540	44%	43,210	68%	10,740	25%	11%
West Midlands	193,000	94,850	49%	65,470	69%	18,340	28%	14%
East	194,000	92,970	48%	64,150	69%	17,310	27%	13%
London *	298,000	209,050	70%	143,690	69%	42,110	29%	21%
South East	267,000	133,690	50%	94,450	71%	26,690	28%	14%
South West	203,000	87,810	43%	63,320	72%	19,320	31%	13%
Total	**1,828,000**	**955,420**	**52%**	**666,080**	**70%**	**191,290**	**29%**	**15%**
** Inner London*	*174,000*	*134,630*	*77%*	*92,840*	*69%*	*n/a*	*n/a*	*n/a*
** Outer London*	*125,000*	*74,480*	*60%*	*50,820*	*68%*	*n/a*	*n/a*	*n/a*

Source: https://www.gov.uk/government/statistics/non-domestic-rating-challenges-and-changes-england-and-wales-march-2016-experimental

7. Whilst the VOA have not publically made available more detailed statistics either publically or to the Systems Re-Design Working Group, we do however have fully detailed and consolidated data from eight London local authorities which we might use to gain some greater understanding of the VOA accuracy of the 2010 List.

Table 3

Backdating of Successful Appeals by Effective Year

Updated Year	2010/11 No.	2011/12 No.	2012/13 No.	2013/14 No.	2014/15 No.	2015/16 No.
	Effective Year					
2010/11	57					
2011/12	1,317	7				
2012/13	4,279	148	4			
2013/14	3,448	223	87	15		
2014/15	5,149	458	462	168	18	
2015/16	3,122	181	413	212	100	5
	17,372	**1,017**	**966**	**395**	**118**	**5**
%age	87%	5%	5%	2%	1%	0%

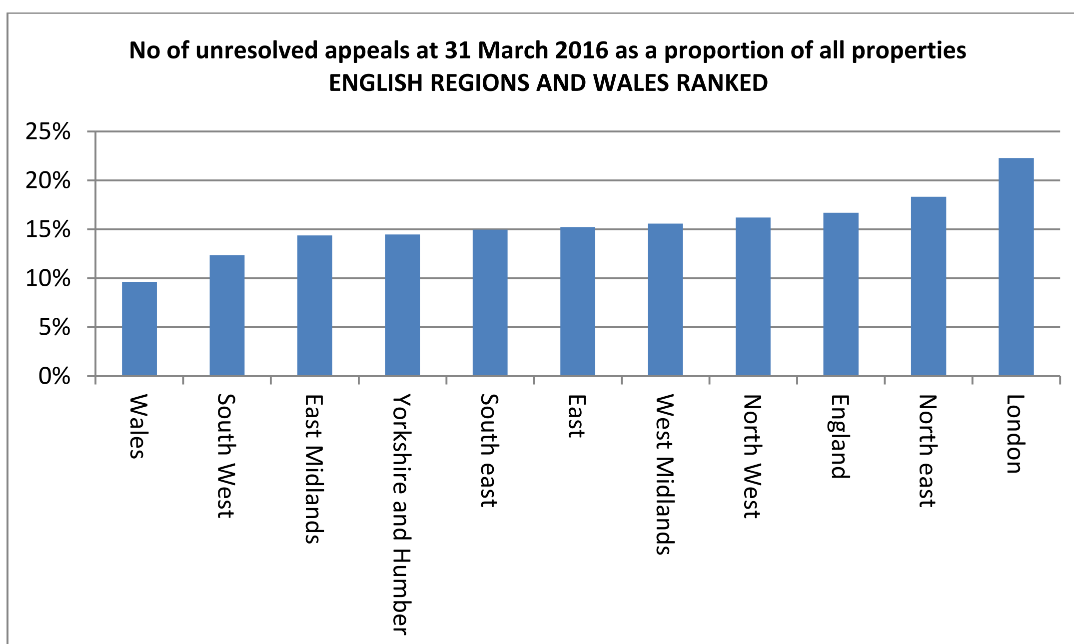
Number of Successful Appeals (Part Reductions) By Effective Date

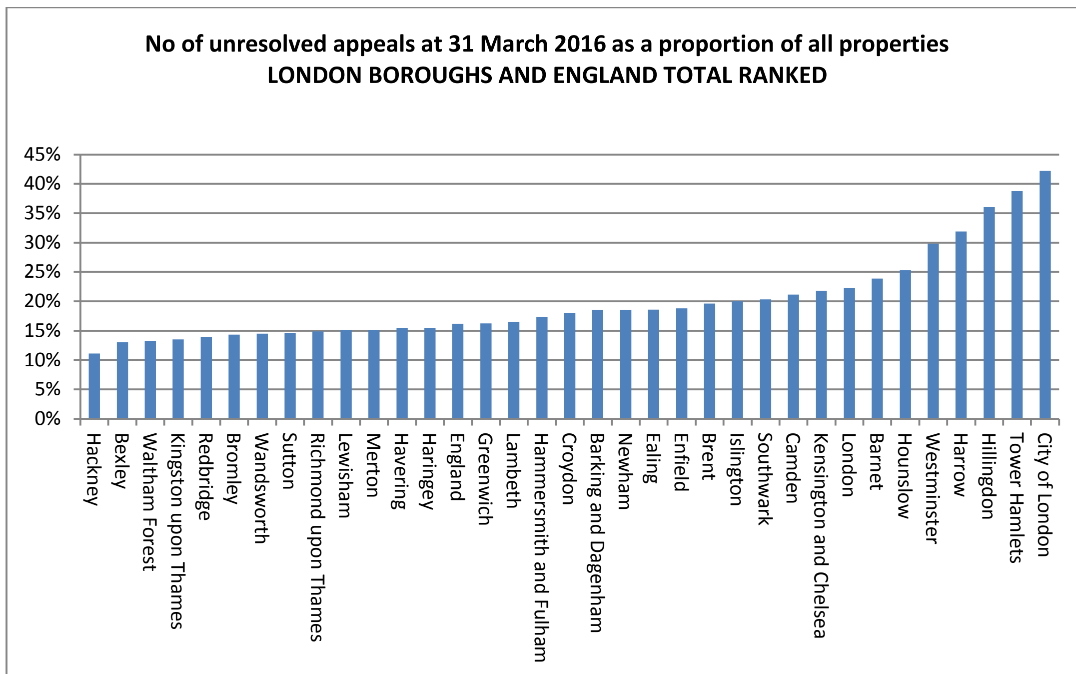
	2005 List No.	2005 List %age	2010 List No.	2010 List %age
Year 1	24,032	79%	17,372	87%
Year 2	2,246	7%	1,017	5%
Year 3	1,715	6%	966	5%
Year 4	1,422	5%	395	2%
Year 5	1,107	4%	118	1%
Year 6			5	0%
Total	**30,522**		**19,873**	
Back-Dated to First Day	*22,100*	*72%*	*16,173*	*81%*

8. Of the 19,873 successful (partial reduction) appeals determined from the 2010 List, 87% have been back-dated to the first year, whilst 81% of the total were back-dated to the first day of the List. A not too dissimilar proportion to the 79% / 72% against the 2005 List. Of the 17,372 back-dated to the first year of the List, only 8% were determined within the first two years of the List

9. It is evident that in the 2010 revaluation significant shifts in rates liabilities across the country were driven by relatively large increases in a small number of billing authorities. This is likely to also apply for the 2017 revaluation and result in significant changes in tariff and top ups even for authorities where changes in rateable values are relatively marginal.

10. There are also significant differences in the number of unresolved challenges (outstanding appeals) at 31 March 2016 as a proportion of the total number of hereditaments by English region and between London boroughs – based on the VOA's statistics. This figure ranges from as low as 9 per cent in Wales to 22 per cent in London with an England average of 16%. Within London the percentages range from a figure of 11 per cent in Hackney to more than 40% in the City of London. While there will be incidences where multiple appeals will have been lodged against individual assessments the scale of these differences by region and within region at this stage of the list will undoubtedly have driven significant variations in appeals provisions in 2015-16.





11. The above statistics call into question the ability of local government to maintain and project their funding levels from NNDR when:

    - The majority of successful challenges are being back-dated to the very first day of the List – something which could easily be argued is the result of the initial valuation being erroneous, and;

    - The significant gap between the effective and updated years introducing severe uncertainty as to the appropriate level of provision to be made pending determination of appeals.

    - The advent of Check-Challenge-Appeal may reduce the number of appeals reaching full appeal, but is unlikely to impact the scale of back-dated corrections in itself. A fall in number of appeals may well be offset by an increase in the success rate of those appeals

12. Any system re-design, or even continuance under existing arrangements, must deal with the serious risks and uncertainties that the VOA's performance and resources to deal with business rate valuations and appeals causes. The impact of these risks have the potential to reduce local authority funding below the level the system intended and ought to deliver to local government. This increases the chance of transition to 100% Retention failing.

13. There is as yet no indication from VOA what their approach to providing information to authorities under check/challenge would be and they appear reluctant to engage with authorities in the current consultation period. We would desire the fullest of information on the Revaluation and on each individual appeal.

14. With regard to the VOA performance, we would wish to see, as a priority and at the soonest possible opportunity (not waiting to the Reset in 2020), the following proposals implemented:

    i. A significant improvement in the accuracy of the original List for 2017 and speed in expediting appeals received – as the evidence in Tables 1 and 2 suggest is currently not the case;

ii. **Greater accountability and reporting from the VOA to local government who rely on the VOA's performance for a significant and growing proportion of their funding – providing greater clarity at both the local and national level;**

iii. **A review of the VOA's resources and funding to enable their performance to be improved – recognising that any additional funding would likely be ultimately funded from overall business rate yield, any additional funding to be the subject of a robust cost / benefit analysis to show a positive return on such extra investment;**

iv. **Any move to re-localise the work of the Valuation Office to be accompanied by a suitable recognition of additional costs and required funding local government would require under the New Burdens Doctrine;**

v. **Explore the potential for any localisation of the VOA work, or removal from HMRC control under a separate agency, to be trialled by means of a pilot in a particular area – being mindful that unless business rate yield is regionalised, care would need to be taken to ensure that national comparators in valuation assumptions are maintained.**

RECALIBRATING THE NATIONAL MULTIPLIER

15. The current localised business rate system aims (subject to an annual RPI inflation increase) to be fiscally neutral in that the change in overall gross value but ought to be precisely offset by a comparable adjustment to the multiplier.

16. The uncertainty, delay in determining successful appeals, and scale of back-dated appeals all lead to the significant possibility that in setting the 2017/18 national multiplier, the full eventual impact of successful appeals will not be fully factored into the re-calibration. All other things being equal, this could well result in hindsight proving that it may not have been set at a sufficiently high enough level to ensure ultimate fiscal neutrality. This would leave businesses paying less than they ought and as a result local government funding falling.

17. In considering the impact of appeals against the opening List, it is important to differentiate between appeals where the original valuation at the start of the List is subsequently changed from where subsequent changes to the nature of the individual property or area leads to a change. It is only those changes that affect the opening List value that local government would expect an appeals-adjusted multiplier to specifically compensate for.

18. In determining the basis on which such appeals are identified, we would wish to see a methodology that is administratively efficient to calculate and easy for the VOA and local government to monitor and project. The concept of using any appeal whose new effective date is the first day of the List (i.e. 1st April 2017 for the next Revaluation) would seem to meet this criteria.

19. The data currently published by the VOA (via the BATRANS website) would need to be modified for the above purpose. Whilst properties fully removed from the List are currently included in these statistics, any new substitutions or replacements tend not to be included.

20. The logic of removing appeals reductions from the List if they were back-dated to the first day of that List should equally apply to similarly retrospective appeals increases in rateable value.

21. It is essential to the integrity of the localised business rates system that the recalibration of the multiplier fully reflects the likely potential for the scale of potential appeals reductions. The basis of determining the likely future impact should be clearly and transparently demonstrated and be backed by clearly evidenced data sources.

22. Complete accuracy in predicting the ultimate impact of appeals on the starting value of the List is of course almost impossible to get exactly right without the advantage of twenty-twenty hindsight or extreme luck. It would be politically easier to justify an initial appeals-adjusted multiplier that is slightly too high and to subsequently compensate business by setting a future multiplier below RPI/CPI to achieve ultimate fiscal neutrality – as opposed to initially setting it too low and having to later justify an above RPI/CPI annual change. On that basis, we would urge DCLG to err on the side of prudence and initially set the multiplier to cover the impact of appeals at the pessimistic end of the spectrum of reasonably likely outcomes.

23. DCLG and the Treasury may have greater faith in the efficiency and accuracy of the VOA's 2017 Revaluation than many in local government might feel is justified by reference to the 2005 and 2010 appeals data, and as such not be disposed to set the appeals-adjusted multiplier at a sufficiently cautious level to cover future appeals. If that were to be the case, given that local government funding could be affected by performance of agencies completely outside of its own control, we would expect an indemnity by central government to fund any potential shortfall that eventually materialises. Of course, should a surplus arise as the result of over estimating the appeals-adjusted multiplier, this could conversely be returned to central government or to the business rate payer via a future change to the multiplier. This would allow Government to assure the ratepayer that, over time, ratepayers as a whole would never pay more and authorities never receive more than we original provided for in estimates.

24. The changes to Tariffs and Top-Ups that will be necessary to maintain the fiscal neutrality of the 2017 Revaluation will need to be based on the draft 2017 Revaluation data. Between October and the end of March 2017 changes to the draft List will inevitably occur as business rate payers query the new valuations under the Check-Challenge-Appeal regime and thus the original valuations on which bills are calculated will almost certainly change – probably downwards but potentially upwards.

25. Those changes will consequently not result in an appeal being recognised in the subsequent appeals data being produced by the VOA from April 2017 and would distort the re-calibrated position between Baseline and local authority's Tariff / Top-Up position.

26. A mechanism to adjust Tariffs / Top-Ups and Baseline should be found and publicised as part of the Settlement papers released in December. Compensation for such adjustments could be announced and paid as either an in-year adjustment in 2017/18 or in 2018/19. We would support the view that such

adjustments should be made in 2018/19 – allowing time for local authorities to adjust budgets for the changes.

27. If it is likely that revaluation changes between the draft and final Lists are generally likely to be downward in nature, there would be a net overall cost in making a net downward adjustment to Tariff / Top-Ups – this would need to be funded. A proportion of the overall yield would presumably need to be withheld by DCLG in the overall distributions in the Settlement to fund these subsequent changes. Any remaining surplus(or potential deficit) to this top-slice would need to be distributed at the same time as the Tariff / Top-Ups are adjusted.

28. With regard to the recalibration of the national multiplier, we would wish to see the following:

vi. **The national multiplier to be set at an appropriate, and demonstrably evidenced, level so that the ultimate impact of successful appeals against the original List can be funded from the gross yield – i.e. that business rate payers pay the same, fiscally neutral, gross yield as they did for 2016/17;**

vii. **That in determining the appeals-adjusted multiplier, a pessimistic assumption should prevail to ensure the additional yield can fund the maximum likely losses – subsequent reductions in future years below RPI/CPI would be made to ensure ultimate fiscal neutrality;**

viii. **Any ultimate shortfall if the multiplier is found to have been set too low to be indemnified and paid for by DCLG / HM Treasury resources;**

ix. **That the basis for identifying successful appeals be kept simple – the new effective date of 1 April 2017 being probably the best basis;**

x. **That the VOA published data be enhanced to facilitate the previous point – i.e. to include all additions and deletions to the List;**

xi. **A mechanism is established to adjust Tariff / Top-Ups for changes made to the new valuations occurring between draft and final Lists – to be funded from the re-calibrated multiplier and paid in the first year of the new Lists operation**.

RECOMPENSING INDIVIDUAL LOCAL AUTHORITIES FOR APPEALS EXPERIENCE

29. As the paper presented by Steve Mair to the Systems Design Working Group on the 25th of July exemplified, that even if we were to achieve a perfect estimate of the ultimately required appeals-adjusted multiplier that would only guarantee fiscal neutrality over total yield following revaluation at the national level.

30. Table 2 of that report demonstrated that using certain broad assumptions around the scale of the increase in rateable values following revaluation and potential subsequent level of successful appeals it is highly unlikely that each local authority would be perfectly compensated for their appeals impact actually encountered.

Table 4

Share to Net Yield %age 30%	2017/18 Rating Income (£m's)	30% Share to Net Yield (%age)	Appeals Flex (%age)	Expected Rating Income (£m's)	Change (£m's)	Appeals Adjusted Multiplier (pence)	Appeals Adjusted Yield (£m's)	Variance to 17/18 Income (£m's)
East of England	2,204	-5%	0%	2,136	(68)	41.0p	2,209	5
East Midlands	1,309	-4%	0%	1,281	(28)	41.0p	1,325	16
London	7,626			7,341	(285)	41.0p	7,591	(35)
- Inner London	5,618	-7%	0%	5,374	(244)	41.0p	5,558	(61)
- Outer London	2,008	-3%	0%	1,967	(41)	41.0p	2,034	26
North East	841	-4%	0%	822	(19)	41.0p	850	9
North West	2,566	-8%	0%	2,444	(122)	41.0p	2,527	(39)
South East	3,310	-5%	0%	3,206	(104)	41.0p	3,316	6
South West	1,932	-4%	0%	1,888	(44)	41.0p	1,952	21
West Midlands	1,833	-5%	0%	1,780	(53)	41.0p	1,840	7
Yorks & Humbs	1,886	-5%	0%	1,834	(52)	41.0p	1,896	10
	23,507	**-5.3%**		**22,731**	**(776)**	**41.0p**	**23,507**	**0**
Westminster	2,320	-8%	0%	2,202	(118)	41.0p	2,277	(43)
Custom List	2,377	-8%	0%	2,267	(110)	41.0p	2,345	(33)

Source: http://www.local.gov.uk/documents/10180/7783321/System+Design+Paper+-+17-07-16+%282%29.pdf/f7577ddd-4b43-413e-b883-30479bde0e0a

31. The discrepancy introduced by the setting of a national appeals-adjusted multiplier, whilst correct overall, would leave winners and losers at both the regional and local level. Examining the data and modelling assumptions used to create the illustrative consequences as displayed in Table 3, the net nil national position comprises of £194m each of winners and losers – ranging from £11m gains to £42m losses at individual local authority level.

32. The distribution of any appeals adjustment to the multiplier thus needs to be distributed according to actual need if unfairness is not going to be incorporated into the system.

33. The element of the new multiplier identified to reflect the expected level of appeals could be top-sliced and pooled centrally – thereafter being distributed according to need. Alternatively, an appropriate adjustment could be made to the Tariff / Top-Ups to achieve the same net result

34. In summary we would call for the system re-design to include the following proposals:

xii. **The element in the revised multiplier included to reflect the likely reduction in rateable value for back-dated appeals should be distributed in accordance to need rather than in a pro-rata uniform manner**

TIMING DIFFERENCES BETWEEN THE COLLECTION FUND & GENERAL FUND

35. Any current deficit or surplus on the NNDR Collection Fund from the originally forecast outturn will be mitigated through the operation of the Collection Fund Adjustment Account (CFAA) for either one or two future years depending on the timing of when the variance is recognised. However, the revenue consequences of any associated change to the Levy and Safety Net payments are not deferred – with a debtor or creditor being reflected in that year's accounts and a direct impact on revenue outturn.

36. Authorities moving further into Safety Net will be in the position of recognising grant funding but not feeling the impact of the reduced NNDR yield until future years. This mis-match could be mitigated by holding the revenue upside in an earmarked reserve, to be released as and when the CFAA impact transfers into the General Fund. It does however potentially lead to the perception that usable balances are artificially high.

37. Should the opposite situation to above be the case, the potential accounting consequences could be worse. Moving out of Safety Net, a local authority may need to account for the repayment of a Safety Net allocation in year whilst the CFAA would defer the NNDR upside by up to two years. Whilst a revenue surplus can be held as an earmarked reserve, losses cannot.

38. A solution to these timing differences needs to be found to prevent a possibility that growing NNDR yield above expected targets could place local authorities in an adverse financial revenue position for up to two years. This could be achieved by adjustments via the CFAA; reflecting the existing Safety Net / Levy payments in the Tariff or Top-Up payments (matching these to the CFAA impacts) or by treating such payments as being chargeable in the first instance to an unusable reserve; or by any other means the Technical Accounting Group can suggest that results in the desired outcome.

39. We would therefore request that:

xiii. The timing differences between the revenue and CFAA accounting treatments for unexpected variations in NNDR yield need to be harmonised

SYSTEM RESETS

40. System resets are intended to recognise likely movements in needs and resources that over time will drift away from the previously determined baseline position. Whilst they would indeed achieve this (subject to agreement on the data and methodology used in the Formula Funding model being reviewed to ensure they accurately reflect the true cost of providing services), they also, under existing arrangements, remove the incentivised growth benefit of having grown the NNDR taxbase.

41. These arrangements create a perverse system of incentivising growth, creating the potential for cliff-edges and potentially influencing development decisions – especially when the next scheduled system reset is likely to come immediately after a development might be completed and just have been recognised within the taxbase.

42. Major regeneration projects are often delivered over a significant number of years that could easily span and exceed the time between two resets, further diminishing the growth incentive for such significant decisions and investment.

43. A balance needs to be struck between the long term incentivising of growth and the need to recognising the fair distribution of local government business rate resources to cover need.

44. Under existing arrangements for the reset, NNDR resources would be redistributed at every reset for two key reasons:

    - Changes in Need / Resources – if every local authority saw no change in NNDR yield (or if it grew relatively uniformly across each local authority) then the change in distribution would simply reflect the change in the data used in the Formula Funding Model;

    - Changes in relative business rate yield – if relative need/resources stayed proportionately the same, but some areas saw significant proportionate changes in NNDR yield, then the net growth or decline in business rates would be redistributed nationally

45. Redistributing variations in regional NNDR growth effectively prevents true full business rate localisation and as such impairs the incentive of full benefit of business rate growth being retained by local authorities.

46. At the same time, those authorities that expect to see significant growth must recognise their responsibilities to the sector as a whole and as such should be willing to share at least a part of their additional yield.

47. Accordingly, the general consensus of the group was that the proposals currently being discussed around "partial" resets should be promoted – a regime whereby a part of the additional growth is not fully rebased at each reset. Over time, multiple partial resets will eradicate dis-proportionate growth, and as such we would propose that a "full" reset is never undertaken.

48. Even with partial resets, the possibility exists that some local authorities would see changes in their needs or resources causing significant changes to their baseline position. It is essential that local authorities retain a degree of certainty over long term finances and have sufficient time to plan for any fundamental

change to their baseline positions. Accordingly, any partial reset must retain provision to include a damping mechanism of sufficient magnitude and timeframe to all changes in net NNDR funding to be managed in a controlled and achievable manner.

49. It is important to note that the correct balance needs to be struck between protecting against immediate short term shocks that might be caused by sudden and substantial changes to funding and recognising the need to distribute resources appropriately to need.

50. We therefore recommend that any re-designed system should:

    xiv. Operate on a system of partial reset to retain the long term incentive for business rate growth;

    xv. That such partial resets should never be substituted by a full reset; and

    xvi. Adequate arrangements are made to allow for appropriate damping to smooth the transition between resets tapering over an appropriate time period. The appropriate scale and time period to be explored further by the group.

FREQUENCY OF SYSTEM RESETS AND VALUATIONS

51. The last revaluation took effect from 2010 and the next one is about to commence from 2017 – a gap of seven years. The current Baseline Funding position was established on the 2013/14 Formula Funding model and at the time was scheduled to be reset in 2020. None of these dates are co-terminus.

52. The timing and frequency of both have implications for the finances of local authorities and business rate payers in the following key ways:

    - The more frequent the revaluation, the more closely business rates will relate to the rental values of properties being used by business. If the total collected before and after a revaluation is still required to deliver a constant yield, this would have the effect of redistributing the business rate burden from low valuation growth areas to high;
    - The current scheme of transitional relief ceases at the commencement of any new List, reducing the valuation interval to, say, three years may have an impact on the speed revaluation increases (or decreases) materialise;
    - Volatility may rise if the revaluation frequency rises – leading to less planning certainty over the medium term;
    - It should be noted that local authorities are themselves business rate payers – the impact of transferring rate liability between high and low growth areas will cause some local authorities to face higher costs – something for which the existing funding model takes no account of these changing burdens;
    - Given the issues around the resourcing of the VOA to undertake accurate valuations on a five (or even seven) year cycle, any shorter time period between valuations would present a significant risk to local authorities being able to have certainty over NNDR yield and appeals forecasts. Moving from seven to three years might well create twice the number of appeals experienced over the life of the current List;
    - Other than the uncertainty that more frequent revaluations could bring, given the existing constant yield model for business rates (and potential changes in their own rates liability), the frequency of revaluations has little other impact on local authority finances;
    - The timing and nature of system resets does however directly impact on local authority finances. Under existing arrangements, the gains from growth incentives are rebased and lost whilst needs and resource pressures are also recalibrated. Some of these issues are further explored in the next section on System Resets.

53. A five year revaluation period and system reset at the same time would seem an appropriate period that balances stability versus recognising changes to both rental values of properties occupied by business and potential changes in needs and resources – both to be combined into a joint timeline. We would therefore recommend that:

xvii. The timeframe for revaluation periods be retained at the normal five year period;

xviii. Partial System Resets are also made at least every five years; and

xix. That the dates of the two are harmonised to minimise disruption – with resets every, or every other revaluation depending on frequency of revaluations.

SAFETY NET ARRANGEMENTS

54. Current Safety Net arrangements – ensuring no authority sees a decline in retained business rates exceed more than 7.5% of Baseline funding – were established from the start of the system in 2013/14.

55. At that time, Start-Up Funding Assessment (SFA) was £26.073bn – comprising £15.175bn Revenue Support Grant (58%) and £10.899bn Baseline Funding (42%). Losses across all local authorities of £817m were therefore protected by the Safety Net – representing 3.1% of overall SFA.

56. By 2016/17, those quanta and proportions had changed to an overall £18.602bn - £7.184bn Revenue Support Grant (39%) and £11.418bn Baseline Funding (61%). These changes have seen the potential losses local authorities could face before reaching Safety Net grow by £39m

57. Most importantly, as Baseline has grown, but by a smaller amount than RSG has reduced, the net protection as a proportion of SFA has effectively declined. From 3.1% of SFA being at risk before Safety Net would apply, this has grown to 4.6%. By 2019/20 that proportion would grow to 6.3%, and would of course ultimately reach 7.5% following full localisation (just under £1.1bn).

58. We believe that overall protection should be based on the cash value established at the start of the localised business rates regime in 2013/14 (uplifted by an appropriate inflation index) rather than on the new Baseline quantum.

59. Such Safety Net protection will of course need to be funded from the overall system resources. Given that the Levy will disappear when full localisation is introduced this would necessarily have to be funded from a top-slice of the overall yield or be transparently paid for from Central List receipts

60. The scale of the requirement for a Safety Net will of course be affected by our proposals outlined in preceding sections to improve the quality of revaluations and to provide specific protections for appeals back-dated to the start of the List.

61. Subject to specific protections for fully backdated appeals being addressed, the group gave consideration to whether the Safety Net should be made more sophisticated to deal with such issues as the loss of one particularly large hereditament from the List, or a decline in the value of multiple properties within a single specific category.

62. Overall, the group felt that the benefits of a continued simple approach to the Safety Net outweighed the gain from any more sophisticated solution that might provide and thus to avoid adding in additional factors for individual properties or categories.

63. With regard to the Safety Net, the group therefore concluded that we would wish to see:

xx. The cash level of Safety Net protection to be adjusted in line with overall SFA to prevent the gradual erosion it has seen as Baseline rises and RSG falls;

xxi. **To keep the Safety Net criteria relatively simple as currently operating, recognising that our proposals around separate protection against appeals would remove a significant level of losses in any case.**

THE CENTRAL LIST

64. Considerable discussion has previously taken place over what assets should be included on the Central List and the use of the NNDR yield so derived from it.

65. Data published by the VOA showed the rateable value of Central List assets to amount to £2.716bn and represented 4.6% of the quantum of the equivalent value of the Local List for England.[2]

	Rateable Value (£millons)
Property Description[1]	Total
Railways	337
Light railways	10
Communications	174
National & Regional Gas Transportation	589
Local Gas Transportation	8
Gas Meters	89
Electricity Transmission	150
Electricity Distribution	527
Electricity Meters	37
Water Supply	736
Canals	-
Pipelines	61
Total	**2,716**

66. Central List NNDR income fundamentally remains business rate income that rightly belongs to local government. As such, whatever its scale and composition it needs to be transparently shown to be returned to local authorities in full at each Finance Settlement.

67. Receipts from the Central List are, in theory, distributed to local government at a national level – i.e. they are not distributed in relationship to individual authorities in any specific relationship to where the infrastructure is typically located.

68. So far is practicable, we would wish to see the Central List kept to the minimum possible. Assets that are difficult or uneconomic to value in separate parts (i.e. the type of infrastructure assets shown above) would of course remain. They are (with the exception of railways) largely underground networks that would have little impact on an areas ability to otherwise generate business rate growth from redevelopment.

69. By so doing, local authority areas will have the best chance of directly and fully benefitting from the development of any new hereditaments in their area without seeing the yield lost to the Central List.

70. The funding raised from the Central List may be used instead of a top-slice to pay for the cost of any general safety net requirement, so long as any remaining balance is clearly shown to be distributed back to local government.

71. Local Government would expect to see full protection from changes to individual local lists brought about by transfers to or from Central List categories.

72. With regard to the Central List, we ask that:

[2] Source: https://www.gov.uk/government/statistics/central-and-local-rating-lists-summary-england-and-wales

xxii. **That the Central List be continued at the lowest practicable level of heraditaments contained on it; and**

xxiii. **Clear and transparent reporting of the expected and actual yields are published together with an analysis that shows its full distribution to local government;**

xxiv. **Transfers between the Central and Locally Lists should be duly adjusted for in Tariff / Top-Up arrangements to ensure such changes do not adversely impact on the local authority retained yield.**

RELIEFS AND DISCOUNTS

73. The local area is the best placed to understand the economic environment and need at the local community level as well as how fiscal incentives can contribute to overall objectives and general wellbeing. As such the group felt that the maximum degree of discretion for reliefs and discounts should be determined locally. Such discretions would be at the cost to the local authorities concerned.

74. The objectives of both parties within two-tier systems should be capable of being supported by discretionary reliefs and allowances and that each should have the powers to determine their own such policies.

75. We do however recognise that any discretionary discount or relief offered by one authority in a two-tier area has the potential to impact on the NNDR yield of the other tier authority. We would recommend that discretionary reliefs and allowances are ring-fenced so that a decision by one does not impact the other. This could be achieved by allowing each to set its own policy and be billed as separate elements on the NNDR bill, or by a separate system of refunds between each to negate the impact.

76. We would expect both tiers to consult with each other so that perverse or contradictory results did not result – with for instance one tier cutting a relief whilst the other raised it

77. We therefore ask that the system re-design allows provision for:

xxv. **As much flexibility, and greater than at present, over local authorities being able to determine their own strategies as to discretionary reliefs and allowances; and**

xxvi. **A system be established to ensure that within two-tier areas, both have their own freedom to influence such reliefs – the cost to be split appropriately so that each bears the cost of its own policy decisions (accounting for them separately).**

GEARING EFFECT

78. Consideration was given to the gearing effect whereby it might prove easier for some local authorities to grow their business rates than it might be for others. This impact may become more pronounced with the likely removal of the Levy once 100% retention comes into force.

79. By way of example, two similar authorities might have identical SFA allocations but vastly different NNDR taxbases – the result being one could be a large Tariff authority whilst the other be in a Top-Up position. Intuitively, it might seem that the authority with the large taxbase would find it easier to grow business rates and thus gain from retaining that increase.

80. The group recognised the potential relative difficulty some areas may face to deliver proportionately comparable growth above baseline and would wish to see options considered for how this might be addressed.

81. Without a Levy going forward, the cost of enhancing growth reward for those low geared authorities would need to be considered. The meeting felt that the most appropriate way would be for a top slice of the national total, or perhaps further use of the Central List funds might be appropriate

82. Whilst further consideration needs to be given to the mechanism and appropriate weightings, the group felt that:

    xxvii. The potential for low geared authorities to grow their taxbase ought to be addressed by some form of enhancement – to be paid from overall national NNDR yield as a top-slice or from the Central List

REVALUATION GROWTH

83. The group gave consideration to the concept of seeing revaluation growth being rewarded – effectively making the revaluation / system resets produce a non-constant yield.

84. Linked to this concept was the proposal put forward by London Councils around the potential to regionalise business rates so that, for instance, the previously high revaluation growth in London would not have reduced the national multiplier to the same degree.

85. The group were unable to form a definitive consensus position on the issue of revaluation growth and will need further debate before they would be able to form a consensus view.